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Tax Features

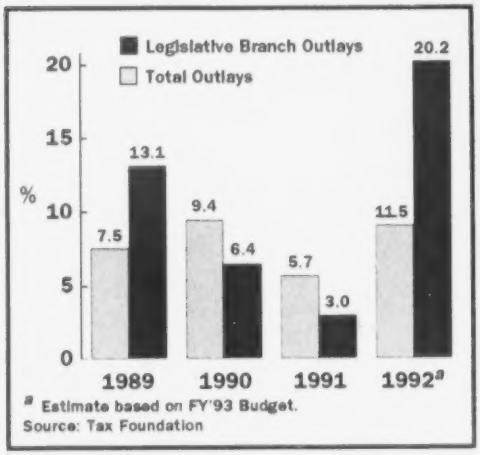
House Bank Scandal Spotlights $2.8 Billion Cost of Congress

During the controversy involving the bank operations of the U.S. House of Representatives, some congressmen listed as writers of bad checks have pointed out that tax dollars were not at risk when they abused their *de facto* unlimited overdraft privilege. That implies, of course, that they behave differently when taxpayers are indeed footing the bill. But the Tax Foundation's analysis of the cost of Congress, an annual feature of our research program for decades, reinforces the public's skepticism on this point.

Total Outlays vs. Legislative Branch Outlays

FY1988 - 1992

Percentage Change



[a] Estimate based on FY'93 Budget.
Source: Tax Foundation

The cost of Congress and the rest of the legislative branch is estimated to rise $464 million to a record high $2.8 billion for fiscal year 1992. This staggering 20.2 percent increase over 1991 figures is more than double the hefty 9 percent increase in overall federal spending.

Just the two houses of Congress themselves will cost $1.3 billion to run. Certainly, the most visible portion of this sum is the congressional salary of $129,500, up modestly from last year due to a 3.5 percent cost of living adjustment. This hike is especially modest compared to the 25 percent raise Congress voted itself at the end of 1990.

Senate expenditures for FY'92 will reach

See Cost of Congress on page 6

FRONT BURNER

The Choice Between the Senate Tax Bill and No Bill

Sen. Bill Bradley

On Friday, March 13th, I faced a real dilemma as did all of my colleagues in the U.S. Senate. That day, we had to vote on a tax bill that we knew was going nowhere. We were certain that the President was going to veto it and that we would not be able to override the veto.

I suspect all of us know that the best tax policy for us in the short term is no tax bill. I want to get beyond that issue and get to work on some of the long-term solutions we all know we need — solutions that will lead to less consumption, more savings, more investment, and more and better education and health care, and reduced deficits. At the same time, I would like the Senate's tax bill to be a step in the right direction.

Chairman Lloyd Bentsen was fair, generous, and considerate in putting together a tax bill that tried to address some of the inequities of the past twelve years. In my first discussion with the Chairman about this bill, I let him know about my reservations. He was unfailingly gracious in listening to my concerns, as he was with every other Member of the Senate. In the end, I had to weigh what I thought was the right thing for the country. Sometimes the best policy is the best politics.

Like other Members of the Senate Finance Committee, I fought to get into the bill that which I thought was good. In my case, that meant "self-reliance loans." These loans would have made up to $30,000 available for any American up to the age of 50 who agreed to pay a percentage of his or her future income back

See Bradley on page 2

Senator Bill Bradley, New Jersey Democrat, is a member of the Senate Finance Committee, and Chairman of its Subcommittee on Deficits, Debt Management, and International Debt.

The opinions expressed in the Front Burner are not necessarily those of the Tax Foundation. Editorial replies are encouraged.

Tax Foundation

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into an educational trust fund. I continue to believe that self-reliance loans are in the national interest because they will help all Americans to go to college, which, in turn, will improve our economic productivity. It was generous of Chairman Bentsen to include self-reliance loans in his bill. I hope that this proposal is contained in any economic package that the Senate agrees to this year and I will continue to push for it in every forum.

There are other provisions in the Senate's tax bill that I supported, such as Chairman Bentsen's small business health care reform, which would have been an important step in the right direction toward comprehensive health care reform. I also supported the millionaires' surtax.

I want to get to work on some of the long-term solutions we all know we need — solutions that will lead to less consumption, more savings, more investment, and more and better education and health care, and reduced deficits.

However, there were problems with the Senate bill. I believe that a tax bill should have one central, coherent purpose. While this bill addressed many important issues, such as the need to bolster the economic resources of American families with children, the need for investment in health and education, and the need for millionaires to pay more taxes, a central goal was absent. In fact, the bill worked at cross purposes. You cannot say that you want to tax the wealthy and then give back $23 billion in special interest loopholes that primarily benefit the wealthy and corporations. You also cannot say you are fighting for the "middle-class-with-kids," much less the entire middle-class, when 25 percent of the poorest children and millions of two-earner families with children cannot fully take advantage of the tax credit.

I fear that the Senate provided the wrong solution to an imagined problem instead of the right solution to the real one. Some will say that I bailed out of a train that was already moving. That is correct. But the question I had to ask was: Is it better to bail out now, or to look back later with regret for having voted for the bill?

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In 1981, I opposed the major tax bill. I opposed it because, given the choice between no bill and that bill, no bill was a better idea.

Times are getting tougher in America every day, and working Americans are getting poorer. What people need is the truth. As the gravely ill patient said to the doctor, "Just tell me the truth." The truth is that the Senate's tax bill will not reduce the deficit. The truth is that it is too little too late to jump start the economy. The truth is that it will provide only limited tax relief to a very small percentage of taxpayers. The truth is that it will open up new loopholes that primarily are used by wealthy Americans and corporations. That is why, given the choice between the Senate tax bill and no bill, I chose no bill.

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Ernst & Young Foundation Awards Grant to Tax Foundation Research Fellow for Study of European Tax Harmonization

The Ernst & Young Foundation has awarded a grant to Professor Tracy A. Kaye of Seton Hall Law School, a Tax Foundation Research Fellow, for her work on tax harmonization in the European Community.

Professor Kaye's study will examine the status of tax harmonization in the EC, as well as the impact of EC tax harmonization on U.S. tax policy. Specifically, this research will examine the issues with respect to the recognition of the EC as a single country for purposes of treaty negotiation with the U.S. and the Subpart F rules of the Internal Revenue Code.

Tracy A. Kaye
Assistant Professor
Seton Hall School of Law
Tax Foundation Research Fellow

The overall objectives of the research will be to:

(1) Determine the effect that indirect tax agreements and direct tax directives will have on the tax systems of the 12 member states of the EC;

(2) Analyze recommendations in the expected report of the independent committee established by the EC Commission on company taxation with respect to their impact on the tax structures of the individual nations;

(3) Assess the impact of EC tax harmonization on U.S. tax policy, specifically addressing such issues as when the EC should be treated as a single country for treaty negotiation purposes and for purposes of the Subpart F rules; and

(4) Analyze current U.S. legislative proposals and make recommendations for changes in U.S. tax policy, taking into consideration the status of tax harmonization in the EC.

U.S.-European Conferees Air Trading Partners' Current Tax Concerns and Anticipate European Community Conflicts

The Tax Foundation's 1992 U.S.-European International Taxation Conference, which took place from January 8-16, 1992, considered a multitude of issues, summarized below. A comprehensive summary of the proceedings, prepared by Professor Tracy Kaye of Seton Hall Law School, a Tax Foundation Research Fellow, will be available next month.

Like 1991's conference, this year's focused on four of the United States' principal European trading partners: the United Kingdom, France, Belgium, and Germany.

The London meetings raised the following issues of concern: treaty overrides, transfer-pricing, and the recordkeeping requirements imposed on foreign-owned U.S. corporations. The United Kingdom's Department of Inland Revenue strongly opposes treaty overrides, suggesting instead that treaty changes should be made through renegotiation. With regard to transfer-pricing issues, the UK representatives believe that the U.S. Congress moved in the right direction in 1990 by seeking to increase enforcement of arm's-length pricing instead of taking a formula approach. The general feeling was that because the tax bases of the U.K. and the U.S. are similar, U.K. companies pay their fair share of taxes in the U.S. and vice versa. The information reporting and record maintenance requirements of Code section 6038A were a major topic of discussion. The main concern has been with the impracticability and expense of the accounting and record creation requirements imposed by Treasury regulations.

The UK representatives believe that the U.S. Congress moved in the right direction in 1990 by seeking to increase enforcement of arm's-length pricing instead of taking a formula approach.

The Paris meetings focused upon many of the same issues discussed in London: treaty overrides, transfer pricing, and recordkeeping requirements. With regard to Code section 6038A, concern was expressed about the requirement that certain corporations maintain prescribed records that are outside the jurisdiction of the U.S. If these records are not maintained, the reporting corporation is subject to severe penalty provisions, as well as harsh noncompliance rules that give the Treasury Secretary broad discretion to allocate income between the reporting corporation and related parties. The worry was expressed that the U.S. Treasury Secretary has such broad powers in regard to the record maintenance requirements as to deny foreign-owned U.S. corporations their fundamental judicial protection.

The worry was expressed [in Paris] that the U.S. Treasury Secretary has such broad powers to increase recordkeeping requirements as to deny foreign-owned U.S. corporations their fundamental judicial protection.

In Brussels, a large part of the meetings focused on an overview of the operations of the institutions of the European Community (*i.e.*, the Commission, Court of Justice, Council of Ministers, Parliament, etc.). It was noted that taxation has the potential for obstructing the free movement of goods, services, and capital, thus distorting trade, and that indirect taxes can have a direct impact on trade. There was also extensive discussion of value-added taxes. It was noted that VAT receipts currently represent about 57 percent of the European Community's revenue. The Council has reached political agreement with respect to harmonizing the VAT rates of the European Community member states. (Currently, the standard rates range from 12 percent in Luxembourg and Spain to 21 percent in Ireland.). Pursuant to an EC directive that is likely to be issued this year, there will be a normal rate for most purchases and a reduced rate for items such as food and housing. Member states must charge a minimum rate of 15 percent. The Commission would like to end up with an origin system, which would reallocate tax receipts on the theory that they belong to the country of consumption. Regarding the issue of U.S. treatment of foreign-owned U.S. corporations, the recordkeeping requirements of Code section 6038A were again raised as a significant concern. In addition, the issue of unitary taxation was mentioned as a concern to European industry. It was noted that the actions of a few states are jeopardizing European investment in the U.S.

Pursuant to an EC directive that is likely to be issued this year, there will be one [VAT] rate for most purchases and a reduced rate for items such as food and housing. Member states must charge a minimum rate of 15 percent.

In Berlin, most of the discussion revolved around investment in the former East Germany and the rest of Eastern Europe. It was noted that while tax incentives may not play a major role in the decision of large companies to invest in the east, they are a very important stimulation to investment by small- and medium-size companies. Also discussed was the pending reform of German corporate taxation. It was noted that German corporate taxes are unfavorable compared to corporate tax rates in many of the other countries, and that this may account for the generally low level of direct investment in Germany by the U.S. and Japan. The current German corporate tax rate is 50 percent.

Pryor Sees Sequel to Taxpayer Bill of Rights (T2) as Crucial Weapon for Taxpayers in Conflict with Internal Revenue Service

On March 16, 1992, chief tax counsel Floyd Williams interviewed Senator David Pryor (D-AR), about his Taxpayer Bill of Rights 2. This proposal would strengthen taxpayer advocacy within the IRS by replacing the Office of Ombudsman with a more powerful Office of Taxpayer Advocate.

Q Congress has been considering legislation to cut taxes and promote economic growth. Why have you chosen this time to pursue your legislation?

A The current debate centers around how to achieve tax fairness for middle-income Americans. I believe this debate should also focus on whether middle-income Americans are treated fairly by the tax collector — the Internal Revenue Service.

Q The first installment of your legislation, the "Omnibus Taxpayer Bill of Rights," was enacted in 1988. Wasn't that enough?

A Many times throughout the almost two-year process of enacting the "Omnibus Taxpayer Bill of Rights," I referred to the legislation as a good first step. Upon its passage, I promised I'd be back because there was much more to do. Well, now I'm back with the Taxpayer Bill of Rights 2, or T2 as we are calling it.

As Chairman of the subcommittee responsible for oversight of the IRS, I receive hundreds of telephone calls and letters from taxpayers who believe they have been wronged. Many of these taxpayers cannot afford to hire counsel to pursue their interests. They simply have no choice but to pay the tax, along with penalties and interest. I have also held hearings as a forum for taxpayers to tell their stories and to hear from taxpayers about how to improve and strengthen the original Taxpayer Bill of Rights. This process has convinced me of the need to expand upon the original bill.

Q Why do taxpayers need a Taxpayer Bill of Rights in the first place?

A The IRS has over 120,000 employees, who process more than one hundred million tax returns and collect over a trillion dollars every year. Let's face it, the IRS is bound to make some mistakes and some employees are going to overstep their bounds. Even if the IRS makes only honest mistakes on only 1 percent of the returns it processes, this would amount to over a million mistakes every year. I simply do not believe that the American taxpayer should be required to pay the price for IRS mistakes and improper actions. There must be safeguards built into the law to protect the taxpayer against the potentially devastating effects of such mistakes and acts. That is why I am seeking to strengthen the Taxpayer Bill of Rights.

Senator David Pryor (D-AR) explains his Taxpayer Bill of Rights 2 to Tax Foundation chief tax counsel Floyd Williams.

Q What were the most significant provisions of the first Taxpayer Bill of Rights?

A That law established the Office of Ombudsman, within the IRS, to act as an independent advocate for taxpayers. Furthermore, it allowed taxpayers to enter into installment agreements with the IRS and prohibited the IRS from using enforcement statistics to evaluate its collections' division employees. The basic thrust of that law was to reaffirm the principle that a taxpayer is the customer of the IRS and to establish a set of rules and procedures to resolve problems stemming from IRS interpretations and administration of the tax law.

Q It seems that the IRS Ombudsman has been fairly successful in assisting taxpayers to resolve administrative disputes with the IRS. How would your new legislation change this position?

A T2 will rename and restructure the Office of Ombudsman. In its place will be the new Office of Taxpayer Advocate. No one really knows what an 'Ombudsman' is, so we are giving the office a name that taxpayers can understand. But most importantly, the Problem Resolution Officers, who are located in IRS field offices, will report directly to the Taxpayer Advocate, who will, in turn, report directly to the IRS Commissioner. Currently, the Problem Resolution Officers are hired, supervised, and promoted by the local District Directors. We believe the restructuring of the Ombudsman's office into the Advocate's office will provide the Problem Resolution Officers with the independence to be more effective advocates for the taxpayer.

The Taxpayer Advocate will have to provide a detailed annual report to the congressional tax-writing committees. Included in this report would be initiatives he has taken to improve taxpayer services and IRS responsiveness; Problem Resolution Officers' recommendations flowing from the field; a summary of the 20 most frequent problems encountered by taxpayers, including a description of the nature of these problems; identification of any Taxpayer Assistance Order that was not honored by the IRS within three days and the reason for delay; and

any recommendations for administrative and legislative action as may be appropriate to resolve problems encountered by taxpayers.

Q Under current law, the Ombudsman may issue a Taxpayer Assistance Order (TAO), which requires the IRS to cease taking an action (such as a collection action). How does T2 change this?

A T2 would permit the terms of a TAO to require the IRS to take action (such as issuing a refund faster), in addition to requiring the IRS to cease taking an action, such as staying a collection. Moreover, the requirement that a hardship experienced by the taxpayer be "significant" as a condition for the issuance of a TAO would be deleted. This will allow Problem Resolution Officers to assist taxpayers in avoiding hardships before they occur. The problem with present law is that the standard of "significant hardship" presupposes that a taxpayer must bear some degree of hardship before any relief can be afforded.

Q What types of action will the Taxpayer Advocate be able to take with this broader grant of authority?

A Examples of the broader powers that the Taxpayer Advocate will be able to exercise include the authority to abate assessments and grant refund requests. The Taxpayer Advocate could grant this power to his designees — the Problem Resolution Officers in the field. Moreover, unlike present law, TAOs will be able to be modified or rescinded only by the Taxpayer Advocate or the IRS Commissioner.

Q Could you highlight some of the changes that T2 makes to the installment agreement provisions?

A T2 makes several important changes with regard to installment agreements. For example, present law requires the IRS to give the taxpayer a 30-day notice before terminating an installment agreement if it is determined that the financial condition of the taxpayer has changed significantly. However, in any other situation, the IRS may unilaterally terminate the installment agreement with no notice to the taxpayer. Under T2, the IRS will have to provide the taxpayer with a 30-day notice before terminating an installment agreement for any reason unless the collection of the tax is determined to be in jeopardy. Moreover, the notice from the IRS must include the reason why the IRS considers the installment agreement to be in default.

In addition, T2 will require the IRS to establish procedures for an independent administrative review of a request for an installment agreement, and will require the IRS to provide a written response to a taxpayer who requests an installment agreement. Finally, the IRS will be required to include in the instructions for filing federal income tax returns the rules and procedures for requesting installment agreements.

Q Currently, the IRS may abate interest on any deficiency that results from any error or delay by an officer or employee of the IRS in performing a ministerial act. How would T2 change this interest abatement authority?

A The ministerial act requirement too narrowly limits the possibility of relief to the taxpayer, to the extent that the IRS never abates interest even where the deficiency is its fault. T2 will require the IRS to abate or refund interest attributable to excessive and unreasonable IRS errors and delays where the taxpayer has fully cooperated in resolving outstanding issues. Furthermore, current law does not provide for a judicial review of the IRS decision whether to abate interest. T2 will empower the courts to review these cases.

Q T2 proposes several changes with regard to IRS collection activities. Would you describe some of these changes?

A A significant change would be to require the IRS to issue a notice of proposed deficiency in every instance except when the collection of tax is in jeopardy. This warning notice would have to be mailed at least 60 days before a notice of deficiency. Failure to issue a notice of proposed deficiency would invalidate the notice of deficiency.

T2 also will broaden the IRS's authority to withdraw tax liens. Currently, the IRS may withdraw a notice of lien only if the notice was erroneously filed or if the underlying lien has been paid or bonded, or has become unenforceable. Moreover, the IRS may return levied property only when the taxpayer has overpaid its tax liability. T2 will provide discretionary authority for the IRS to withdraw a notice of a lien in the following situations: (1) the filing of the notice was premature or not in accord with the IRS's administrative procedures; (2) the taxpayer has entered into an installment agreement for the payment of the tax liability with respect to the tax on which the lien is imposed; (3) the withdrawal of the lien will facilitate the collection of tax liability; or (4) the withdrawal of the lien would be in the best interest of the taxpayer and the U.S. If any of these situations occur, then the IRS would be required to return the levied-upon-property to the taxpayer. Also, if the taxpayer requests in writing, the IRS would have to make prompt efforts to notify credit reporting agencies and financial institutions that the notice of lien has been withdrawn.

In addition, T2 would eliminate many of the burdensome requirements that deter the IRS from pursuing offers in compromise. For example, it would clarify that the IRS may make any compromise that would be in the best interests of the U.S., and would raise the threshold above which an opinion of the IRS Chief Counsel is necessary from $500 to $50,000.

Furthermore, T2 will enhance taxpayer protection by requiring the IRS to notify a taxpayer in writing that he or she is under examination and to furnish a copy of "Your Rights as a Taxpayer" prior to commencing any examination.

Finally, the cap on civil damages caused by an IRS employee who recklessly or negligently disregards the provisions of the Internal Revenue Code or regulations would be increased from $100,000 to $1 million, and a taxpayer could recover up to $100,000 for negligent acts.

Q In addition to requiring the IRS to act more responsibly, doesn't your bill also subject information return filers to more requirements?

A That's right. Businesses would have to put their telephone numbers and the name of a contact person on information returns, *i.e.*, W-2 forms, 1099s, etc. Furthermore, any person who willfully files a false or fraudulent information return with respect to payments purported to be made to another person will be subject to a civil action for damages.

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Cost of Congress from page 1

$488 million, $4.9 million per senator, while the House of Representatives' budget calls for $722 million, $1.7 million per representative. In addition, joint expenses have been estimated at $73 million for the current fiscal year.

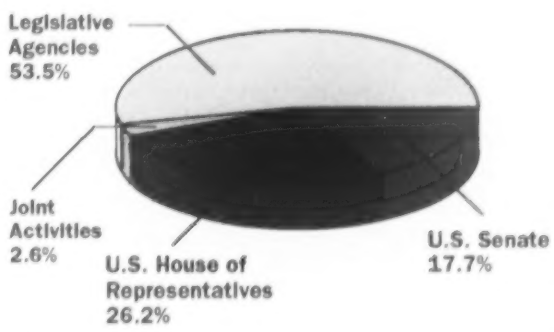
Expenditures for the rest of the legislative branch have also reached record levels, totaling some $1.5 billion for FY'92. These fund various legislative agencies such as the Library of Congress, Government Printing Office, and Architect of the Capitol.

According to recent figures from the Office of Personnel Management, the legislative branch employs 38,662 workers. Of these, the Senate employs 7,584, the House 12,737, and the various agencies 18,312.

The committee system of Congress is comprised of 20 committees and 87 subcommittees in the Senate, employing over 770 professional staff. The House maintains 27 committees and 155 subcommittees, with 1,271 professional staff attached. Finally, joint committees bring the total for the congressional bureaucracy to over 50 committees and 250 subcommittees, employing a professional staff of over 2,100.

Outlays for the Legislative Branch of the Federal Government by Unit

Fiscal Year 1992



Source: Tax Foundation.

Outlays for the Legislative Branch of the Federal Government by Unit

Selected Fiscal Years 1970-1992 (a)

($Millions)

Unit	1970	1980	1990	1991	1992
Total	$343	$1,218	$2,230	$2,296	$2,760
Congress, total	179	582	1,108	1,153	1,283
Senate	58	184	381	392	488
House of Representatives	108	325	585	655	722
Joint activities	13	73	141	106	73
Legislative agencies, total	164	636	1,123	1,143	1,477
Architect of the Capitol	19	89	131	187	312
Botanic Garden (b)	1	2	2	3	4
Congressional Budget Office	-	12	18	20	23
General Accounting Office	70	201	362	393	433
Government Printing Office	34	116	120	75	130
Library of Congress (b)	50	193	479	443	549
Office of Technology Assessment	-	11	18	19	21
U.S. Tax Court (b)	3	10	27	29	32
Other (b)	-	14	4	6	7
Deductions for offsetting receipts	-12	-11	-37	-32	-34

(a) Data for 1992 are estimates from the FY1993 Budget presented in January 1992.
(b) Includes trust funds.
Source: Office of Management and Budget.

Corporate Compliance Study Progresses at Michigan Meeting

Representatives of the Tax Foundation met on March 12 with Professors Joel Slemrod, University of Michigan, and Marsha Blumenthal, University of St. Thomas, to discuss the Foundation's ongoing study of the cost of corporate tax compliance. Representing the Foundation at this meeting were M.D. Menssen, Staff Vice President, Taxes, 3M Company; F.E. Wells, Vice President, Taxes, The Procter and Gamble Company; Bill Stebbins, Assistant Tax Counsel, Chrysler Corporation; and Floyd Williams, Chief Tax Counsel, Tax Foundation. Also in attendance were two key IRS representatives, John Monaco, head of the IRS Coordinated Examination Program, and Richard Teed. John Monaco noted that

John Monaco, head of the Internal Revenue Service's Coordinated Examination Program

the IRS wants to take measurable steps to improve its operations, and that finding the underlying costs of compliance will help it to do so. He further indicated that a joint venture among corporate groups, academia, and the government will help the IRS to meet its goals for improvement.

The specific purpose of the meeting was to make final revisions to a confidential survey that will be sent to corporations throughout the country next May. With the results from this survey, the Tax Foundation will better be able to quantify the cost of corporate tax compliance and suggest improvements to policymakers to make the tax system simpler, fairer, and less costly to comply with.

Pryor from page 5

Q Taxpayers often complain about regulations that take effect retroactively. What would T2 do in this regard?

A In general, any proposed or temporary Treasury regulation would apply prospectively from the date of publication of the regulation in the Federal Register. Final regulations could take effect from the date the proposed or temporary regulations are published.

Q Are there any significant provisions of T2, as introduced, that were left out of the Senate bill? If so, do you anticipate a T3?

A There were several items in T2 which, I regret to say, were dropped from the final Senate bill because of revenue concerns. Under the current pay-as-you-go rules, we would have had to raise a significant amount of tax revenue to (1) eliminate the interest differential between the interest paid by taxpayers to the government for underpayments and interest paid by the government to taxpayers for overpayments; (2) provide an automatic installment agreement to taxpayers with tax liability of less than $10,000 and who have not been delinquent in paying their taxes over the past three years; and (3) allow taxpayers filing "Schedule C" (Unincorporated Trade or Business) or "Schedule F" (Farm Income and Expenses) to deduct business expenses without regard to the 2 percent floor. These items are very important and will be pursued in the future.

The more I learn about the IRS, the more I realize that the need for legislation to address taxpayer issues will always exist.

Q What has been the reaction of Treasury and the IRS to T2, and is this any different from their reaction to T1?

A The IRS and the Treasury Department oppose 24 of the 28 provisions in T2. This is nothing new. They opposed the first Taxpayer Bill of Rights. However, in hearings I held in the Finance Subcommittee on Oversight of the IRS, the Commissioner of Internal Revenue admitted that the first Taxpayer Bill of Rights was a good thing. I suspect 4 years from now they will say the same about T2. ■

FOUNDATION MESSAGE

There Was Plenty to Dislike in Both Bills

Floyd Williams
Chief Tax Counsel

In this month's "Front Burner" column, Senator Bill Bradley pointed out that when given a choice between the Senate tax bill and no bill, he chose no bill. Although some of our readers might not agree with all of the reasons for which Senator Bradley voted against the Senate bill, most would probably agree with his decision not to support it. Now that President Bush has vetoed round one of congressional tax legislation, it might be worthwhile to examine the pluses and minuses of both bills.

Both the House and the Senate tax bills would have provided middle-income tax relief through new tax credits. The House bill, for two years, would have provided a refundable income tax credit of up to $400 on joint returns and $200 for single returns. In contrast, the Senate bill would have provided a permanent, nonrefundable tax credit of $300 per child who is under age 16. However, families who earned more than $60,000 per year (hardly qualifying for rich in many parts of the country) would have received no benefit from the credit. Likewise, hard-working Americans who have no children, or who have children over the age of 16, would have received nothing.

What would the price have been for this "tax relief"? The House bill added a new 35 percent rate bracket for individuals with adjusted gross incomes of $85,000 or more ($145,000 or more on a joint return), and the Senate bill added a new 36 percent rate bracket for individuals with adjusted gross incomes of $150,000 or more ($175,000 or more on joint returns). The House bill, but not the Senate bill, increased the individual alternative minimum tax to 25 percent. Both bills imposed a 10 percent surtax on "millionaires." Moreover, both bills extended the limitation on itemized deductions and phase out of personal exemptions for higher-income taxpayers.

Regardless of one's opinion of the current system's fairness, it is hard to conceive how reshuffling the tax rates in order to give a relatively modest tax cut to some middle-income taxpayers will help to spur the economy. Congress' chief domestic policy concern should be enactment of legislation that will spur savings and investment, create jobs, and put people back to work.

That is not to say that there were no good ideas in either the House or the Senate tax bills. Both contained positive elements. For example, repeal of the accumulated current earnings depreciation adjustment (contained in both bills) would simplify life for many corporations and provide welcome alternative minimum tax relief. Moreover, both bills contained some form of capital gains tax incentive. Both bills also provided penalty-free IRA withdrawals for first-time home purchases, and certain medical and educational expenses. The Senate bill also would have restored full IRA contribution deductibility for all taxpayers, and created a new type of IRA to which contributions would be nondeductible but from which withdrawals would be tax free.

Additionally, the House bill (but not the Senate bill) provided 14-year amortization for purchased intangibles. Adoption of this proposal would be a major step toward tax simplification and would reduce tax compliance costs significantly for many businesses. Both bills also contained some form of a new "Taxpayer Bill of Rights," which would provide additional safeguards for taxpayers in many of their dealings with the IRS. Finally, it should be noted that both bills dealt in a generally favorable manner with expiring tax provisions, as well as took some steps to mitigate the unfair treatment that was accorded to the real estate industry by the Tax Reform Act of 1986.

While there is much that could be done to make the tax code simpler and more fair for all Americans, the best course now might be to enact a scaled-down bill to deal with some of the "must do" items, such as the extenders. Longer-term reform might best be left until next year when Congress and the President will not have the distractions of election-year politics.

Foundation Members Briefed on Tax Policy by Lindsey, Hubbard and Moseley

The Program Committee of the Tax Foundation met on February 20th for a briefing at the Treasury Department in Washington on tax policy. Lawrence B. Lindsey, Governor, Federal Reserve Board, and Glenn Hubbard, Deputy Assistant Secretary of the Treasury for Tax Analysis, spoke about the prospects of economic recovery and growth in the context of the President's tax proposals. After this meeting, the group of tax executives adjourned to the Capitol Hill Club for a luncheon, where they heard the view from the other end of Pennsylvania Avenue from Phil Moseley, Chief of Staff (Minority), House Ways and Means Committee.

▲ *At right, Federal Reserve Board Governor Lawrence Lindsey briefs Tax Foundation Program Committee members at the Department of the Treasury. Tax Foundation executive director Dan Witt looks on at left.*

◀ *At right, Glenn Hubbard, Deputy Assistant Secretary of the Treasury for Tax Analysis, speaks on President Bush's proposals to stimulate the economy. Federal Reserve Board Governor Lawrence Lindsey is at left.*

Upcoming Foundation Events

What	Where	When
Connecticut Tax Policy Seminar	Stamford Marriott	March 31
Tax Freedom Day Press Conference	Washington, DC	April 15
California Tax Policy Seminar	Los Angeles	May 8
Texas Tax Policy Seminar	Dallas	May 21
TF/NYU Transfer Pricing Workshop	New York City	May 28-29
Tax & Trade Conference	Washington, DC	June 3
Foundation Policy Council Luncheon	New York City	June 25

Tax Features

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